

**Opening Statement
Chairman Michael G. Oxley
House Financial Services Committee**

**Subcommittee on Capital Markets, Insurance, and
Government Sponsored Enterprises/
Subcommittee on Financial Institutions and Consumer Credit**

Promotion of Capital Availability (Merchant Banking) Hearing

I want to thank Chairman Baker and Chairman Bachus for holding this important hearing and for their commitment over the last year to seeing that the rules we examine today do no harm to the promotion of funding of American businesses. It is essential that government do all in its power to encourage the availability of investment capital to businesses rather than construct obstacles to the free flow of capital.

To this end, the 106th Congress passed the Gramm-Leach-Bliley Act to streamline financial services regulation to better reflect the modern financial marketplace. An important part of the Act is the authorization given to financial holding companies and bank holding companies to conduct merchant banking investment activities. This authorization sought to level the playing field so that banks would not be at a disadvantage relative to securities firms in the merchant banking arena.

Merchant banking investment is a vital source of funding for private equity funds and venture capital activity. These funds are used as seed money for new businesses and to fund the growth and reorganization of existing firms. All types of businesses tap the private equity funding market, from the smallest corner shop to the publicly traded industrial giants.

The interim rule and proposed capital rule governing merchant banking activities of FHCs and BHCs issued by the Federal Reserve Board of Governors and Treasury in March of last year seemed to perpetuate just the obstacles to merchant banking investments by banks that the GLBA attempted to avoid.

The Fed, Treasury, OCC and FDIC should be congratulated for taking a more flexible approach with regard to capital requirements and for easing some of the restrictions in the interim rule that has now been finalized. Notably, the exemption from the capital charge carved out for Small Business Investment Corporations is an important change that will promote the funding of small businesses and the creation of jobs.

Despite the great steps taken to improve the initial rules, financial services firms continue to express some legitimate concerns regarding the final rule and the revised proposed capital rule. As the provisions of Gramm-Leach-Bliley are implemented, it is incumbent

upon this Committee to conduct oversight to ensure that regulations do not contradict its purpose.

This hearing is an opportunity to openly discuss how the new rules might affect the financial services industry and the businesses they fund. It is an opportunity to suggest ways in which the rules might be further improved. Also, we'll explore whether any legislative action is necessary to ensure that the two-way street for banks and securities firms remains open as envisioned in Gramm-Leach-Bliley.

I thank each of our witnesses for coming today to discuss this issue, and I look forward to your testimony.

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